



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

SEPTEMBER 14, 2006

The regular meeting was called to order by President Carey at 8:30 a.m. Thursday, September 14, 2006. Roll call was taken with all members of the Board being present, with Beth Nedrow attending via conference phone. Board members and staff present were:

Carole Carey, President
John Paull, Vice President
Robert Griffith, Member
Jay Klawon, Member
Troy McGee, Member
Elizabeth Nedrow, Member
Terry Smith, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Counsel
Scott Miller, Legal Counsel
Linda Owen, Secretary

OPEN MEETING

Stephen C. Kologi, AMRPE; Tim Jones, Great-West Retirement Services; Jim Kembel, MPPA, MACOP, TIAA-CREF; Rick Ryan, Matt Norby, Douglas H. Neil, Bob Bergren, Jack Trethewey, and Ed Regele, members of the Montana State Firemen's Association; and Kim Flatow, Member Services Bureau Chief; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; and Carolyn Miller, Administrative Officer, MPERA, joined the meeting.

Public Comment – *No public comment on any subject of interest to the Board not on the agenda.*

MINUTES OF OPEN MEETING

The minutes of the open meeting of August 10, 2006 were presented. Mr. Paull moved that the minutes of the previous open meeting be approved. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director

Aegon Contract Amendment – Aegon is the wrap provider for the 457 Plan stable value fund. In May 2006, the Board approved use of emerging markets in the 457 Deferred Compensation Plan's stable value fund, on a limited basis. Because Aegon "wraps" or insures the stable value fund, the current Aegon Administrative Agreement and Investment Guidelines must be amended relative to the concentration limits and to allow use of new PIMCO mutual funds. The majority of the Aegon Administrative Agreement is the current insurance contract on file with the State Insurance Commissioner allowing Aegon to provide/do business within the State of Montana. The language is relatively standard and has been approved by the Insurance Commissioner.

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Mr. McGee moved to accept and sign the Aegon Administrative Agreement amendment allowing use of the PIMCO emerging market funds and modifying the stable value fund's concentration limits. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Peerless School District - 457 Resolution and Adoption Agreement – A spouse of a Peerless School District employee works for the State and is a State 457 Deferred Compensation Plan participant. The participant convinced the spouse/Peerless School District employee that the School District should join and offer the State 457 Plan. Consequently, the employee approached her employer, who agreed and then requested information from MPERA. Information was sent to the Peerless School District in July 2006. The School district reviewed the required Resolution and Adoption Agreement and signed them at their August 2006 meeting. Mr. McGee moved to accept and sign the Resolution and Adoption Agreement allowing the Peerless School District to join the State 457 Deferred Compensation Plan, effective October 1, 2006. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Out of State Travel Authorization – The Board discussed sending two staff to attend the National Association for Government Training and Development (NAGTAD) 2006 Annual Conference in Las Vegas, Nevada, November 12-15, 2006. Mr. Griffith made a motion to approve the NAGTAD Conference travel requests for Rob Virts and Joel Thompson, Education/Training Specialists. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

DC Plans RFP Committee Report – Ms. Nedrow reported on the RFP committee's progress and reviewed the second draft of the RFP with the Board. The Committee has continued to refine and make changes to the "Scope of Services." The Committee will begin their work on Cost and Evaluation at their September 15 meeting.

Mr. McGee requested starting on Section 2, RFP Standard Information, #2.3.5 – Achieve Passing Score. "Any proposal that fails to achieve ___% of the total available points [for all of the sections added together] will be eliminated from further consideration." He felt it as a good idea and the "passing score" will be very helpful with the final evaluation and interviews by the Board. Although it may be a little high, his recommendation would be 90%, which would be the higher end of a "good" evaluation. Mr. Klawon was not comfortable with 90%, particularly if no one received 90% and it would have to be lowered. Mr. McGee felt it should be somewhere in the "good" percentage area. Ms. Nedrow noted that it makes more sense when reviewed in the context of the scoring guide in Section 6, Basis of Analysis, which will help determine who the Board would interview.

Ms. Samson noted the scoring guidelines in the draft are fairly standard and the language comes from State Procurement. Before working on sections 3, 4 and 5, the Committee wanted the Board's input on if the scope of services was clear, and if the appropriate and necessary questions have been asked to ensure the services will be received in the manner desired.

Section 3.7.14 – Ancillary Services (4.2.14). Ms. Nedrow pointed out that the industry is moving all the time and the Board needs to have some flexibility to adjust. Mr. McGee agreed, but requested that “may” be changed to “could” as follows: “Through the term of this contract, the Board anticipates that additional RFP’s ~~may~~ could be issued...”

Section 4.2.10(D) – Computer and Data Security – “...Are there any limitations to the Board or MPERA’s access to files?...” Mr. McGee would like the question clarified on whether or not the Board would accept limitations. Ms. Samson stated the questions are intended to try to find out differences between companies. Mr. McGee did not feel it was well done. Ms. Nedrow pointed out that section 3.8.16 clearly states that the Board must have access to all files.

Section 5 – Cost – The committee identified particular services to see what the specific price would be to perform the cost analysis of having it contracted, or possibly having it in-house. Ms. Samson wanted input from the Board if there were other things they should be looking at more closely, relative to pricing or ability to perform in another more efficient or cost-effective manner. Mr. McGee asked that, if a vendor proposes a combined response (i.e. administrative and recordkeeping services), can it be segregated during the process? Ms. Samson felt the committee tried, in the scope of services, to let possible offerors know that the Board’s intent is to look at things separately and to have the flexibility to separate them out, even if the vendor wants to provide the combined services.

Section 6.0 – Basis of Evaluation (Points) – Ms. Nedrow stated the committee has not looked at this topic in any great detail; it is open for discussion. Mr. McGee felt the point system should be uniform, meaning the same number of **total** points for each category (i.e. the total number of points for recordkeeping versus the total number of points for administrative services). Ms. Nedrow stated the reason why they were different was because there are only two categories for recordkeeping while administrative services have three categories. The allocation of the points is based on where the Board views the critical services. There is a total of 500 points for both services.

According to the standard language from State Procurement, there are three ways to score price. This is very critical because it is determining the value of the price, and the price leads into the highest or best offerors.

1. Ratio Method – The proposal with the lowest cost receives the maximum points allowed. All other proposals receive a percentage of the points available on their cost relationship to the lowest.
2. Best Value Method – A value is presented in the form of a cost per point. The proposal with the lowest cost per point represents the Best value to the State and would receive the award.
3. Two-Step Method – All proposals that meet the established criteria are deemed qualified and the proposal with the lowest cost would receive the award.

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According to the State Procurement, the Ratio Method is used the most and the Two-Step Method is used the least. Ms. Samson noted that for the last RFP, the Board used the Ratio Method. Mr. McGee agreed that the Ratio Method seemed like the simplest and easiest to apply. Ms. Nedrow pointed out this was the time for discussion and that no decisions are needed at this time.

Ms. Samson explained that in the offeror qualification requirements, rather than assigning points, the committee recommended setting it up as a "pass/fail." A "fail" for any individual evaluation criteria may result in proposal disqualification at the discretion of the Board. The Board would have to decide how important a particular "failed" category was. Mr. McGee wanted to be sure it would be okay for the Board to do that. Ms. Samson said that because it was stated in the RFP that the Board may look at each one of those individual criteria and use their discretion, it would be okay. The Board is being clear that a "fail" means an offeror is eliminated for the category as a whole, but if they fail in any one area of the category, then the Board can use their discretion.

Mr. McGee felt it was important the Board decide what their role will be in the interview process. He felt a presentation before the Board by the vendors could very well affect the outcome.

The Board needs to decide how the offerors interviewing with the Board will be scored:

1. The Board interview will be defined and used to clarify certain portions or components of the written RFP. The written scores would be modified to reflect the clarifications gleaned from the interview.
2. The Board interview would not be defined, but would be more free-flowing. The Board's scores would be added to the written scores. The Board decides upon the interview criteria and points are awarded to each criteria. Board points are added to the written scores. Top offeror wins.
3. Offerors would start at zero with the Board interviews. Written scores get the offerors to the Board interview, but the Board interview is the final determination. The Board decides upon the interview criteria and points are awarded to each criteria. Top scoring offeror from Board interviews is recommended for contract award.

Number 3 could make what went on before meaningless. Mr. McGee felt #2 is the better way if developed properly. He also felt it was very important to have a cutoff. Mr. Klawon stated there is no perfect way to do this. He suggested that up to the top three point achievers would be interviewed, regardless of how many apply initially.

Ms. Nedrow reminded the Board that their involvement is not just the interviews. It is in all of the other pieces that go before it, when the points are being awarded in the other sections prior to the interviews, which is also the Board's work. The Board has the ability to affect the outcome by influencing the categories that are scored and the scoring of the categories beforehand. It is not entirely accurate to say it is out of the Board's control or that they have no impact. Board consensus was that they want the Board review process to be meaningful and affect the outcome.

Mr. Klawon suggested that determining the total points and taking a percentage of the total points would work the best for scoring. Ms. Nedrow suggested the RFP committee run some numerical examples and see how the points will play out. She would also like more discussion on whether the Board consensus is that cost should be weighed very heavily. The counter argument is that the Board needs a cost they can afford, but also if a vendor has a higher cost but also better services, the higher cost would not be enough to knock them out of contention. Mr. McGee felt the Board should make cost very important because it shows to those the Board represents that they are concerned about the cost and that it is not immaterial.

The committee was comfortable with the input received. Ms. Nedrow thanked Ms. Samson for all of her work. Mr. McGee commended the RFP committee on the exceptional job they are doing.

Review 2007 Bill Drafts – Ms. Minnehan presented three Board-sponsored bill drafts for discussion. The bill drafts need to go to the Office of Budget and Program Planning by September 15th. The three bills are: 1) actuarial funding bill; 2) DC loan payment; and 3) general revisions bill. Drafts for the actuarial funding bill and the DC loan payment bill mirror the original drafts submitted in the 2005 session. The numbers for the actuarial funding bill will not be available until the actuary has completed the valuations. The general revisions bill was accompanied by a table for reference and explanation.

DC Start-Up Loan Bill – For obtaining appropriation to repay start-up loan. The amount used is \$1.384 million, the balance determined as closely as possible to what the loan will be effective July 1, 2007. The interest rate is a variable interest rate, so the current rate of 4.75% is being used.

General Revisions Bill – The Board discussed only the pieces of legislation they had questions on. Ms. Symons briefly reviewed different sections of legislation contained in the General Revisions bill that had been clarified, modified or amended.

Actuarial Funding Bill – Addresses the PERS increase in the employer contribution rate phased in based on the actuarial valuation. Terminating the additional employer contribution would not cause the amortization period to exceed 25 years. Any changes to the plan choice rate (PCR) will be dependent upon the results of the actuarial valuation.

Mr. Smith suggested once the start-up loan expenses were paid in full, the increase in employer contributions be allocated to reducing the unfunded liability relating to the DCRP, which the Board approved.

Ms. Nedrow departed the meeting.

NASRA Conference Report – Ms. Minnehan gave a brief update on the NASRA Conference she attended in San Diego, CA, August 4-9, 2006. Discussion included such topics as the disclosure issue, privacy and identity theft, disability fraud, disaster recovery plan, being proactive in the media and responding to the media on your own website. Because other states deal with many of the same issues as Montana, she was able to obtain a lot of useful information and ideas.

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Staffing Update – Ms. Minnehan advised the Board of a half-time paralegal position that will be posted for three weeks, expecting to make an offer with that person on about October 20, and they will start no later than November 6. One of the first things this person would be doing is tracking legislation.

Board of Investments Update – Mr. Paull gave a brief update of the Board of Investments (BOI) meeting on August 24, 2006.

Real Estate Investment Pool – New investment guidelines have been established for the Montana Real Estate Pool. Courtland Partners, the real estate consulting firm, who are under contract with R.V. Kuhns, the investment consultant, are working with BOI staff and have hired nine real estate managers, with the possibility of hiring six more. Investment guidelines have been adopted for the Montana Real Estate Pool.

Montana Domestic Equity Pool - Recent diversification efforts within the Montana Domestic Equity Pool required the BOI to bring the policy allocation ranges up to date. The most significant change in the portfolio structure was the addition of the enhanced index large cap managers, which now constitutes about 16% of the pool. These new manager portfolios were sourced from the internal active portfolio, thus, the need for the policy change.

The enhanced index external managers that were hired are:

- T.Rowe Price – Fundamental approach.
- Enhanced Investment Technologies (INTEC) – Quantitative approach.
- Goldman Sachs Asset Management – Quantitative approach.
- Western Asset Management – Synthetic approach.

The transition of \$500 million of assets from the internally-managed large cap portfolio to the four new enhanced index managers was completed at the end of May. Those four new managers each received one-fourth of the total, approximately \$125 million each.

Montana International Equity Pool – The selection of international equity managers was completed at the end of June and contract negotiations are still ongoing. The new managers selected are:

- Acadian and Berstein in the **Value** category.
- Batterymarch, Julius Baer, and Barclay Global Investors (BGI) in the **Core** category.
- Martin Currie, Hansberger, and Principal Global Investors (PGI) in the **Growth** category.
- AXA Rosenberg, **Small Cap** manager.

The restructuring of the pool will involve the termination of one of the current active managers, Schroder, and the downsizing of the other active Pacific region manager, Nomura. This new pool structure will be a more diversified and actively managed portfolio, providing more opportunity to add value than the current structure. \$500-\$800 million of assets are expected to be awarded by the end of September.

Teachers' Retirement System (TRS) Asset Allocation Policy – The TRS Asset Allocation Policy was approved on August 24, 2006. This same policy will also apply to the other retirement plan portfolios until distinct asset allocation policies are advisable. The changes to the TRS Asset Allocation Policy are as follows:

- *Montana Domestic Equity Pool* – Old range: 40-50% -- New range: 30-50%
 - Large Cap – Current to New range: 82-92%
 - Mid Cap – Old range: 4-10% -- New range: 5-11%
 - Small Cap – Old range: 4-8% -- New range: 3-8%
- *Montana International Equity Pool* – Old range: 12-18% -- New range: 15-30%
- *Montana Real Estate Pool* – Increase the allocation to accommodate the plan to add 5% to real estate over the next three years. New range: 0-5%
- *Retirement Funds Bond Pool* – Allocation will be reduced because this asset class is expected to fund much of the increase in the real estate pool. Old range: 25-35% -- New range: 22-32%
- *Montana Private Equity Pool* – Old range: 4-7% -- New range: 5-10%

MANG Firefighters Lawsuit – Lawsuit regarding whether or not Montana Air National Guard (MANG) firefighters should be in the Firefighters' Unified Retirement System. Clarification was requested; however, the judge refused to clarify. There was a hearing regarding attorneys' fees; no ruling yet.

Terry Teichrow vs. MPERA Scheduling Order – The hearing will be in October 2007.

SAVA Committee Meeting – The State Administration and Veteran's Affairs (SAVA) Interim Committee will meet November 28-29, 2006, to review, consider, and make recommendations on public employee retirement system-related draft legislation.

Joint Issues Committee Meeting – The next Joint Issues Committee meeting will be September 28, 2006.

Cut Bank Local Police – The city of Cut Bank Local Police are interested in joining the statewide plan (MPORS) effective the beginning of the next fiscal year.

Miscellaneous – Ms. Symons distributed disclosure statements for individual Board members to use prior to voting on decisions that may impact their own retirement benefit.

Future Board Meetings – Thursday: October 12, November 9, and December 14, 2006.

Operational Summary Report - The Executive Director presented an operational summary report for the month of July 2006, answering any questions Board members had.

The following portion of the meeting relates to matters of individual privacy. President Carey determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING

MINUTES OF CLOSED MEETING

The Executive Director presented the minutes of the closed meeting of August 10, 2006. Mr. McGee moved that the minutes of the previous closed meeting be approved. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with four of the attending members voting aye, and Mr. Griffith abstaining because he was not at that meeting. (Mr. Klawon was out of the room.)

CONTESTED CASES

Jeannie Johns - Informal Consideration – Ms. Johns is requesting to be allowed to purchase one-for-five service based on rates and factors in place in 1990. Following discussion, Mr. Paull moved that the Board approve the request from Ms. Johns and allow her to purchase two years and five months of One-for-Five service based on 1990 factors, and charge Ms. Johns no additional interest on this purchase. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

James Clark - Informal Consideration – Mr. Clark was approved for a disability benefit from the Public Employees' Retirement System (PERS). Each year, he is required to submit verification of employment. Upon receipt of the 2005 information, Mr. Clark provided information regarding employment with Butte/Silver Bow. As Butte/Silver Bow is a PERS employer, his disability benefit was terminated. He was informed that he needed to repay the disability benefits he received in 2005 and the applicable portion of 2006. Mr. Clark is appealing the cancellation of his disability benefits and the repayment request.

During discussion of the case, Ms. Flatow presented a letter explaining Mr. Clark's employment as part of his rehabilitation. Mr. Klawon moved that the Board reinstate the disability benefit for Mr. Clark. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye, and Mr. Griffith voting nay. Ms. Symons noted in Mr. Clark's file that the letter was support for the Board's decision.

Kelly Kuehn - Informal Consideration – Ross Cannon, attorney for Kelly Kuehn, joined the meeting. He was not allowed to participate, but could listen to discussion of the case.

Mr. Kuehn was approved for a disability benefit from the Public Employees' Retirement System (PERS). Each year, he is required to submit verification of employment. Mr. Kuehn is currently working with several employers, as reflected on the annual earnings statements. He was informed that he needed to repay the disability benefits he received in 2005 and the applicable portion of 2006. Mr. Kuehn is appealing the cancellation of his disability benefits and the repayment request.

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Under the provisions of 19-3-1104, MCA, if a person is disabled and they return to a PERS-covered entity, their disability benefit is canceled. Mr. McGee moved that the Board uphold the previous staff decision and terminate the disability benefit for Mr. Kuehn, pending staff review of additional information. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

RETIREMENT REPORT – Kim Flatow, Member Services Bureau Chief

Disability Claims – Ms. Linjatie presented a disability claim for Marty Andres. After Board consideration, Mr. Klawon made a motion for approval of the disability claims as recommended for Marty Andres, with annual review. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Ms. Linjatie presented additional disability claims for Board consideration. Mr. Paull made a motion for approval of the disability claims as recommended for Mark Kleffner, without annual review; and a duty-related disability without annual review for Joe Uribe and Kendall Wickman. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Disability Reviews - Ms. Linjatie presented the disability reviews to the Board. After discussion of all the reviews, Mr. Paull made a motion to approve the disability reviews as recommended: to continue disability retirement and discontinue annual review for Theodore Druschel and Lorraine Houppert. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Finalized Service/Disability Retirement Benefits, Monthly Survivorship/Death Benefits, and Funeral Benefits - Applications for service retirements/finalized disability benefits, applications for monthly survivorship-death benefits, and applications for funeral benefits were presented to the Board. Mr. Paull made a motion to approve the retirement benefits as presented. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Contested Case Report Update - The Board Attorneys presented a contested matter status report update.

EXECUTIVE SESSION

The meeting went into executive session to discuss the status of the Executive Director.

ADJOURNMENT

There being no further business to come before the Board at this date, the meeting was adjourned. The next meeting is tentatively scheduled for October 12, 2006, at 8:30 a.m. in Helena.